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Venezuela

Coffee

Annual Report

2008

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Report Highlights:
Production is forecast to be lower for 2008/09, which could make coffee more difficult to find on the local market, as incentives to increase output are not sufficient enough to cover Venezuela's strong consumption and exports.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Annual Report
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Executive Summary

Venezuelan coffee production for the 2007/08 harvest is estimated to increase to 996,000 bags as a consequence of a good production cycle and credits derived from the government coffee plan. However, inconsistent price policies have created scarcities and generated pressure on some segments of the domestic coffee market. Venezuelan coffee consumers feel the impact of producer price controls as the product disappears from market shelves. Producers have a strong desire to build the export market, although government support of this activity is unclear and coffee producers are not well organized. Total exports for 2007/08 are estimated at 260,000 bags depending on the results of the government coffee plan to boost production. The government has announced some strategies to export coffee to the United States and distribute it through Citgo convenience stores.

Production

Venezuela produces very high quality Arabica coffee. From colonial days until the discovery of the first oil well more than a century ago, Venezuela's main source of income was coffee and cocoa. Currently, only about 200,000 hectares are under cultivation.

As coffee plantations are distributed over a wide range of attitudes and regions, coffee can be harvested during ten months of the year. Most coffee is grown at altitudes ranging from 600 meters to 1,500 meters, and is harvested in December and January, with the harvest in the eastern region extending until February. Most coffee producers are small farmers with plantations between one and five hectares, representing and average of eight quintals (one quintal equals 46 kilograms) of production per hectare.

There are three major coffee producing regions in Venezuela. In the Midwestern region production is concentrated in Sanare in Lara state, and Biscucuy, Ospino and Chabasquén in Portuguesa state. In the western region coffee is in Boconó in Trujillo state and Santa Cruz de Mora in Mérida state. In the eastern part of the country coffee is found in Caripe in Monagas state

Total production for 2007/08 was 996,000 bags of 60 kilograms, considered to be a good harvest. Venezuelan coffee production has not expanded in the last three years as expected, since there has been no price stimulus to keep growers on the land. Production costs have increased significantly, and labor (coffee production in Venezuela is very labor intensive) is difficult to find; plantation workers have instead often migrated to the government social missions. Added to these difficulties are factors such as low productivity growth, hard economic conditions in production zones, the lack of technical and financial support, outbreaks of the "broca" coffee borer worm in certain areas, and deficient transportation infrastructure.

For 2008/09 production is estimated to decrease to 920,000 bags due to weather conditions; primarily the summer has been too long. Further, the coffee harvest characterized for having bi-annual cycles, where one year the harvest is good and the following year is often not. The year 2008/09 is expected to be the latter.

Consumption

Venezuela consumes about 85 percent of its coffee and the rest is for exports. Per capita consumption is estimated at about 1.8 kilograms per year. Local coffee consumption is considered high compared with other producing countries.

Coffee consumption figures for 2006/07 were revised to 780,000 bags. In 2007/08 consumption was estimated at 800,000 bags due to a better access of low-income people to the basic food basket products distributed through government food commercial chains. Total domestic consumption for 2008/09 is forecasted to remain steady at 800,000 bags.

Trade

For long time, coffee has been subject to price controls, limitations in exporting and importing coffee, and lack of updated technology.

Most coffee trade is in private hands. The local industry, which continues to consume the majority of the crop, buys coffee either from the paccas (mills) or from the cooperatives, often through intermediaries. Some paccas and co-operatives export coffee, but only when the local market is in excess or international prices are very high.

Traditionally Venezuela's coffee trade includes some cross-border shipments from or to Colombia, depending on the market situation. Controlled domestic prices have meant that the traditional pattern of coffee coming in from Colombia has virtually stopped, and much more coffee than usual is expected to be exported to Venezuela's Andean neighbor and to the Caribbean islands. Estimates now are that about 150,000 quintals have moved out in 2007/08.

Traditionally the United States has been the main market for Venezuelan coffee exports with an eighty percent share, and the rest to the European Union. Many Venezuelan producers have established direct marketing arrangements with foreign buyers. With the cooperation of the European Union, small coffee exporters are focusing on the high-quality market segments due to the high price premium for these coffees. Exports for 2007/08 are forecast to be in the order of 260,000 bags.

Policy

Coffee, like many other products of the basic food basket, is under a controlled price regime established by Venezuela since 2003. Farm-gate prices for green coffee as well as ground coffee retail prices have not been adjusted since December 2005 and January 2006 respectively, when the Government was forced to review the controlled prices due to market pressures. Political controls have always been present in the sector, and this also limits any possibility of developing a strong, diversified sector.

Producers have been recently asking the government for an adjustment of about 50 percent in the fixed farm-gate prices since production costs are too high, but no action has been taken on this request as of yet. This issue has created some distortion on the domestic market. Coffee inventories in supermarkets have started to decrease, and many brands are no longer on the shelves. Store managers point out that coffee shortages are about 40 percent, since the industry is supplying about half of the amount requested by the stores.

Table 1. Coffee Supply and Demand

Venezuela Coffee, Green									
	2007	Revised		2008	Estimate		2009	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		10/2006	10/2006		10/2007	10/2007		10/2008	10/2008
Area Planted	300	300	300	300	300	300	0	0	300
Area Harvested	207	207	207	208	208	208	0	0	208
Bearing Trees	560	560	560	560	560	560	0	0	560
Non-Bearing Trees	30	30	30	30	30	30	0	0	30
Total Tree Population	590	590	590	590	590	590	0	0	590
Beginning Stocks	526	526	526	488	488	483		0	414
Arabica Production	862	862	862	900	900	996	0	0	920
Robusta Production	0	0	0	0	0	0	0	0	0
Other Production	0	0	0	0	0	0	0	0	0
Total Production	862	862	862	900	900	996	0	0	920
Bean Imports	2	2	0	2	2	0	0	0	0
Roast & Ground Imports	3	3	4	3	3	4	0	0	5
Soluble Imports	0	0	1	0	0	1	0	0	1
Total Imports	5	5	5	5	5	5	0	0	6
Total Supply	1393	1393	1393	1393	1393	1484	0	0	1340
Bean Exports	110	110	85	250	250	225	0	0	180
Rst-Grnd Exp.	35	35	35	35	35	35	0	0	35
Soluble Exports	0	0	0	0	0	0	0	0	0
Total Exports	145	145	120	285	285	260	0	0	215
Rst,Ground Dom. Consum	750	750	780	760	760	800	0	0	800
Soluble Dom. Cons.	10	10	10	10	10	10	0	0	10
Domestic Use	760	760	790	770	770	810	0	0	810
Ending Stocks	488	488	483	338	338	414	0	0	315
Total Distribution	1393	1393	1393	1393	1393	1484	0	0	1340
Exportable Production	102	102	72	130	130	186	0	0	110